DEPARTMENT OF STATE

AIRGRAM

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Summary: ROK statistics for footwear production and export in 1977 suggest that the principal effects of the Orderly Marketing Agreement with the United States which took effect in June 1977, have been to freeze growth projections, to raise prices, and to shift exports away from marginal footwear items such as slippers and slipper socks. Because of heavy early shipments and the pipeline based on high demand in early 1977, the principal rollback effects of the OMA appear to have been delayed.

The ROK industry appears viable in view of continuing comparative advantage and the possibility of declining efficiency in traditional European exporting countries. Financial statements for two of the nine major firms investigated indicate slippage from "Excellent" to "Fair" condition during 1977.

Opportunity exists for U.S. footwear machinery manufacturers as international restrictions create incentives toward greater production efficiency and quality upgrading to obtain higher return per unit of output. End Summary.

Enclosure: Table 1 - 4.

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Production

Stated in the categories for which Korean statistics are available, production of all footwear in 1977 totalled 246,915 thousand pairs representing a six percent increase over 1976. Canvas shoes totalled 113 million pairs representing 45% of production, the same proportion as in 1976. Chemical shoes, which accounted for 14 percent of 1976 production, increased to 16 percent of 1977 production or 39 million pairs.

Nine firms accounted for almost 80 percent of Korean production while 71 other small and medium firms produced the remaining 52,450,000 pairs of which 22 million were slippers. (Tables 1 and 3 contain production and export data for the major firms.)

Exports

Exports by value totalled $502.6 million in 1977, representing a 21.8 percent increase over 1976 on a volume increase of less than one-half percent (855,000 pairs). The U.S. took 60.6 percent of ROK footwear exports in 1977 (down from 64 percent), but, although export value increased 14.9 percent, volume decreased 4 percent from 1976. Exports to Japan increased 52.7 percent by value on a volume expansion of 43.7 percent.

The nine largest manufacturers exported almost 70 percent of total 1977 exports.

General Assessment of the Industry's Viability:

Korea enjoys comparative advantage in the kinds of footwear for which world demand is high. The industry fully expects that the labor costs of large exporting countries such as those of Italy, Japan and Sweden will cause their decline. Korean development in the production and export of dress leather footwear has been minimal. Therefore, despite restrictions by the U.S. Canada, Sweden and Japan, the leather industry perceives opportunity for growth. Yulsan Trading Co. has reportedly recently established a leather footwear plant in Sung Nam City with an export capacity of $2 million annually, and Dae Sung Co., an affiliate of the Daejon Co., will open a new plant with capacity of 5,000 pairs daily starting in the latter half of 1978. Esquire, which serves the domestic market, is constructing a second plant to produce 1,500 pairs per day.

Although current Five Year Plan (1977-81) projections for demand and exports of leather shoes were developed before the OMA and are now dated, some manufacturers have referred to them in connection with expansion plans, while being prepared to make rapid adjustments in response to market developments:

(1,000 pairs)

	1976	1977	1978	1979	1980	1981
Demand	17,074	22,011	26,932	31,343	37,780	45,747
Percent Growth		28.9	22.3	16.4	20.5	21.1
Exports	12,129	14,433	17,655	20,064	23,588	29,388
Percent Growth		19.0	22.3	13.6	17.6	24.6

It should be noted that 1977 leather shoe exports exceeded the projection by reaching 16,626 thousand pairs, only 1 million below the projection for 1978.

The industry's financial condition is not estimable from company financial statements because the major firms produce rubber and leather products other than footwear. Table 4 presents the 1976-77 financial statements of the 9 major producers. Embassy would appraise their financial status as follows:

	Current Ratio (CA to CL)		Ratio of Profit Earned on Sales (NP to NS)		Overall Financial Condition (1977)
	12/31/76	12/31/77	12/31/76	12/31/77	
A. ICC Corporation	.97	.96	.03	.02	GOOD
B. Tae Hwa	1.45	.99	.04	.02	GOOD
C. Chin Yang	1.07	.97	.03	.02	GOOD
D. Sam Hwa	1.06	.99	.03	.01	FAIR
E. Tong Yang	.89	.74	.004	-	POOR
F. Taejon	1.07	.99	.03	-	FAIR
G. Kum Kang	1.36	1.38	.04	.04	EXCELLENT
H. Dae Dong	1.25	1.34	.02	.02	GOOD
I. Dae Woo	.90	1.07	.04	.05	EXCELLENT

Effects of the OMA and Circumvention

The statistics available indicate that the effects of the OMA and restrictions by other countries have been to raise export prices, to stifle planned export growth and to curtail exports of the lower priced categories affected (such as home covers and slippers/slipper socks). It should be noted that the composition of exports is determined by foreign buyer/importer choices and market response to the effects of OMA's rather than by manufacturer or exporters' independent options.

Instances which have been raised by the U.S.G. of alleged efforts by Korean firms to circumvent the OMA have been investigated promptly by ROK authorities. A drastic decline in exports of "others" from 1976 to 1977 reinforces the view that no significant trade has developed in footwear parts or semi-finished footwear for assembly or completion in non-OMA countries in circumvention of the OMA.

Opportunities for U.S. Firms

One of the classic effects of trade restraints is to stimulate greater efficiency and improvement of product. The Korean industry offers export opportunities to U.S. specialized footwear machinery manufacturers in connection with its efforts to improve its quality in competing with the products of the traditional European industry which it perceives to be facing inevitable decline. (A report on the related ROK tanning industry is being prepared and will be reported separately.)

Imports of footwear with uppers of leather are currently prohibited, although other footwear is subjected to automatic import approval. However, even were trade restrictions lifted, the Korean market for quality shoes will remain primarily for custom made products for the indefinite future.

GLEYSTEEN

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Table 1. Korean Footwear Production by Major Manufacturers - 1976 and 1977

(Unit: 1,000 pair)

		Rubber Shoes	Rubber Boots	Canvas Shoes	Chemical Shoes	Leather Shoes	Slippers	Others	Total
Total:									
1976		19,838	31,628	105,751	33,209	17,744	24,658	685	232,911
1977		19,371	38,021	113,169	38,712	17,262	22,196	184	246,915
ICC	76	5,706	7,327	37,878	6,640	2,785			60,334
	77	4,781	9,883	42,689	7,568	1,778			66,779
Tae Hwa	76	5,889	5,564	17,273	8,515	4,035			41,276
	77	6,354	4,901	18,020	7,901	5,018			42,194
Chin Yang	76	1,401	5,660	16,244	7,884	320		675	32,184
	77	1,553	5,792	14,529	9,035	280		184	31,376
Sam Hwa	76	778	6,267	15,916	1,660	1,508			26,129
	77	412	8,144	16,496	3,042	904			28,998
Tong Yang	76	3,411	2,829	7,032	4,205	1,187			18,764
	77	3,366	2,452	7,128	5,361	1,162			19,469
Taejon	76					1,663			1,663
	77					1,813			1,813
Kum Kang	76					1,113			1,113
	77					1,163			1,163
Dae Dong	76					1,398			1,398
	77					1,522			1,522
Dae Woo	76					703			703
	77					1,151			1,151
Others	76	2,651	3,881	11,410	4,305	3,032	24,058	10	49,347
	77	2,922	4,749	14,307	5,805	2,471	22,196	-	52,450

Source: Ministry of Commerce and Industry.

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Table 2. Korean Footwear Exports by Major Country by Value

In millions of dollars
FOB,
Customs clearance basis

	1976	1977	% Change
Total	412.6	502.6	+21.8
To: U.S.	264.9	304.4	+14.9
Japan	47.6	72.7	+52.7
Canada	28.6	21.7	-24.1
U.K.	11.9	18.0	+51.3
F. R. of Germany	10.4	15.0	+44.2
France	11.4	14.1	+23.7
Netherlands	6.0	11.5	+91.7
Others	31.8	45.2	+42.1

Source: Office of Customs Administration(OCA).

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Table 3. Korean Footwear Exports by Major Country of Destination by Quantity

(Unit: 1,000 pair)

	Total		U.S.		Japan		Canada		Others	
	1976	1977	1976	1977	1976	1977	1976	1977	1976	1977
TOTAL	173,802	174,657	93,917	90,103	22,068	31,712	13,525	9,101	44,294	43,741
Rubber Shoes & boots	29,947	32,006	11,319	11,836	4,305	7,983	3,588	2,290	10,735	9,847
Canvas Shoes	87,444	90,539	50,189	50,885	14,641	19,490	6,258	4,064	16,356	16,100
Chemical Shoes	6,255	6,999	4,614	4,539	483	796	423	429	735	1,235
Leather Shoes	17,281	16,626	15,930	14,315	333	264	261	304	757	1,743
Slippers	23,986	22,125	7,709	5,345	1,267	1,817	1,374	920	13,636	14,043
Others	8,889	6,362	4,156	3,133	1,037	1,362	1,621	1,094	2,075	773
ICC	48,036	50,016	34,234	33,656	2,151	2,633	2,606	1,443	9,045	12,284
Rubber Shoes & boots	7,394	7,752	3,242	3,782	157	527	479	221	3,516	3,222
Canvas Shoes	33,967	37,172	25,587	26,442	1,859	2,074	1,628	948	4,893	7,710
Chemical Shoes	325	103	253	45	2	-	4	-	66	58
Leather Shoes	2,785	1,778	2,587	1,630	18	32	59	28	121	88
Slippers	679	1,128	235	263	29	-	28	34	387	831
Others	2,886	2,083	2,330	1,494	86	-	408	214	62	375

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Table 3. Cont'd

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	Total		U.S.		Japan		Canada		Others	
	1976	1977	1976	1977	1976	1977	1976	1977	1976	1977
Tae Hwa	19,175	19,393	12,384	12,903	2,019	2,692	1,631	692	3,141	3,106
Rubber Shoes & boots	4,793	4,841	1,705	1,549	1,660	1,743	126	46	1,302	1,503
Canvas Shoes	9,895	9,302	6,511	6,391	251	864	1,346	519	1,787	1,528
Chemical Shoes	452	139	281	46	22	43	148	45	1	5
Leather Shoes	4,035	5,018	3,887	4,854	86	42	11	82	51	40
Slippers	-	27	-	-	-	-	-	-	-	27
Others	-	66	-	63	-	-	-	-	-	3
Sam Hwa	20,996	19,461	6,830	5,552	4,061	7,599	3,236	2,473	6,869	3,837
Rubber Shoes & boots	6,842	7,526	1,026	959	1,795	3,880	1,553	932	2,468	1,755
Canvas Shoes	11,429	9,112	3,555	3,236	2,049	2,756	1,624	1,429	4,201	1,691
Chemical Shoes	970	1,153	868	704	8	71	37	99	57	279
Leather Shoes	1,508	904	1,222	653	176	126	13	13	97	112
Others	247	766	159	-	33	766	9	-	46	-

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Table 3. Cont'd

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	Total		U.S.		Japan		Canada		Others	
	1976	1977	1976	1977	1976	1977	1976	1977	1976	1977
Chin Yang	20,744	18,327	11,656	8,287	1,792	3,456	1,781	1,396	5,515	5,188
Rubber Shoes & boots	5,547	5,694	2,348	2,172	2	711	813	672	2,384	2,139
Canvas Shoes	13,047	9,823	7,301	4,549	1,790	2,567	825	441	3,131	2,266
Chemical Shoes	1,830	2,368	1,687	1,286	-	178	143	263	-	641
Leather Shoes	320	280	320	280	-	-	-	-	-	-
Others	-	162	-	-	-	-	-	20	-	142
Tong Yang	9,462	8,601	6,087	5,867	675	550	495	465	2,205	1,719
Rubber Shoes & boots	2,234	2,313	1,145	1,356	45	10	349	237	695	710
Canvas Shoes	3,883	3,887	2,590	2,376	567	533	134	202	592	776
Chemical Shoes	1,338	1,239	1,233	1,214	19	-	-	6	86	19
Leather Shoes	1,187	1,162	1,118	921	43	7	12	20	14	214
Others	820	-	1	-	1	-	-	-	818	-
Taejon	1,663	1,813	1,353	1,265	-	-	8	34	302	514
Leather Shoes	1,663	1,813	1,353	1,265			8	34	302	514
Kum Kang	650	682	650	677	-	-	-	5	-	-
Leather Shoes	650	682	650	677				5		

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Table 3. Cont'd

	Total		U.S.		Japan		Canada		Others	
	1976	1977	1976	1977	1976	1977	1976	1977	1976	1977
Dae Dong	1,398	1,367	1,322	1,242	-	-	66	47	10	78
Leather Shoes	1,398	1,367	1,322	1,242			66	47	10	78
Dae Woo	703	1,151	588	573	-	-	27	28	88	550
Leather Shoe	703	1,151	588	573			27	28	88	550
Others	50,975	53,846	18,813	20,081	11,368	14,782	3,675	2,518	17,119	16,465
Rubber Shoes & boots	3,137	3,880	1,853	2,068	646	1,112	268	182	370	518
Canvas Shoes	15,223	21,243	4,645	7,891	8,125	10,696	701	527	1,752	2,129
Chemical Shoes	1,340	1,997	292	1,244	432	504	91	16	525	233
Leather Shoes	3,032	2,471	2,883	2,220	10	57	65	47	74	147
Slippers	23,307	20,835	7,474	5,082	1,238	1,817	1,346	886	13,249	13,050
Others	4,936	3,420	1,666	1,576	917	596	1,204	860	1,149	388

Source: Ministry of Commerce and Industry.

Note: Since the sources of the data between Table 2 and Table 3 are different, the two tables may not be consistent with each other.

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Table 4. Financial Statements of Selected Major Makers of Footwear
(As of End of 1977)

A. ICC Corporation

Major Products : Footwear, Garment
Annual Production Capacity of Footwear: 61,000,000 pair
Number of Employees : 25,000 persons

Financial Statement (W mil.)	12/31/76	12/31/77
1. Assets	37,776	58,876
Current Assets	24,172	33,920
Fixed Assets	13,346	24,609
Deferred Assets	258	347
2. Liabilities	28,825	43,278
Current Liabilities	24,965	35,424
Fixed Liabilities	3,859	7,854
3. Net Worth	8,952	15,599
Capital	4,680	6,680
Earned Surplus	4,272	8,919
4. Profit and Loss		
Net Sales	78,105	102,051
Exports ($ million)	197	328
Net Profit	2,588	2,471

B. Tae Hwa Co., Ltd.

Major Products : Footwear
Annual Production Capacity: 32,000,000 pairs
Number of Employees : 11,552 persons

Financial Statement (W mil.)	12/31/76	12/31/77
1. Assets	17,365	26,566
Current Assets	9,943	16,005
Fixed Assets	7,145	10,083
Deferred Assets		
2. Liabilities	10,279	19,743
Current Liabilities	6,867	16,210
Fixed Liabilities	1,601	3,533
3. Net Worth	7,087	6,813
Capital	3,120	3,120
Earned Surplus	3,967	3,693
4. Profit and Loss		
Net Sales	33,772	38,324
Net Profit	1,208	796

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Table 4. Cont'd

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C. Chin Yang Chemical Co., Ltd.

Major Products : Footwear and Plastic goods
Annual Production Capacity of Footwear: 31,718,000 pairs
Number of Employees : 12,858 persons

Financial Statement: (W mil.)

	12/31/76	12/31/77
1. Assets	31,612	41,793
Current Assets	22,257	28,500
Fixed Assets	9,037	12,980
Deferred Assets	317	306
2. Liabilities	26,468	35,648
Current Liabilities	20,857	29,247
Fixed Liabilities	5,611	6,401
3. Net Worth	5,144	6,145
Capital	3,050	4,000
Earned Surplus	2,094	2,145
4. Profit and Loss		
Net Sales	47,318	54,492
Exports ($ mil.)	72	-
Net Profit	1,422	852

D. Sam Hwa Co., Ltd.

Major Products : Footwear, Textiles, Agri. Products
Annual Production Capacity: 33,000,000 pairs
Number of Employees : 8,164 persons

Financial Statement (W mil.)

	12/31/76	12/31/77
1. Assets	31,482	47,132
Current Assets	23,056	34,915
Fixed Assets	7,756	11,653
Deferred Assets	670	564
2. Liabilities	26,237	41,087
Current Liabilities	21,704	35,422
Fixed Liabilities	4,533	5,665
3. Net Worth	5,245	6,044
Capital	3,600	4,500
Earned Surplus	1,645	1,544
4. Profit and Loss		
Net Sales	29,215	67,309
Exports ($ mil.)	47	-
Net Profit	792	619

Table 4. Cont'd

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E. Tong Yang Rubber Enterprise Co., Ltd.

Major Products : Footwear and rubber shoes
Annual Production Capacity of Footwear: 24,994,000 pairs
Number of Employees : 6,535 persons

Financial Statement (₩ mil.)	12/31/76	12/31/77
1. Assets	10,329	9,474
Current Assets	8,121	6,393
Fixed Assets	2,147	3,043
Deferred Assets	61	38
2. Liabilities	10,575	9,653
Current Liabilities	9,151	8,622
Fixed Liabilities	1,424	1,024
3. Net Worth	-246	-179
Capital	73	73
Earned Surplus	-319	-252
4. Profit and Loss		
Net Sales	16,024	-
Exports ($ mil.)	20	24
Net Profit	57	67

F. Taejon Leather Industrial Co., Ltd.

Major Products: Leather Shoes, Leather Garments and Leather Baseball Gloves
Annual Production Capacity of Footwear: 1,950,000 pairs
Number of Employees : 3,432 persons

Financial Statement (₩ mil.)	12/31/76	12/31/77
1. Assets	29,305	24,115
Current Assets	22,766	17,999
Fixed Assets	6,448	6,034
Deferred Assets	91	81
2. Liabilities	24,471	20,146
Current Liabilities	21,276	18,273
Fixed Liabilities	3,195	1,873
3. Net Worth	4,835	3,969
Capital	3,000	3,450
Earned Surplus	1,835	519
4. Profit and Loss		
Net Sales	33,977	83,330
Exports ($ mil.)	64	151
Net Profit	1,053	-374

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Table 4. Cont'd UNCLASSIFIED

G. Kum Kang Shoes Mfg. Co., Ltd.

Major Product : Leather Footwear
Annual Production Capacity: 2,100,000 pairs
Number of Employees : 2,000 persons

Financial Statement (₩ mil.)

	12/31/76	12/31/77
1. Assets		
Current Assets	4,634	5,816
Fixed Assets	3,780	4,788
Deferred Assets	798	881
	56	46
2. Liabilities		
Current Liabilities	3,343	4,268
Fixed Liabilities	2,774	3,471
	569	797
3. Net Worth		
Capital	1,290	1,547
Earned Surplus	400	400
	890	1,147
4. Profit and Loss		
Net Sales	6,746	8,003
Exports ($ mil.)	7	7
Net Profit	257	286

H. Dae Dong Co., Ltd.

Major Products : Footwear and plastic goods
Annual Production Capacity of Footwear: 2,800,000 pairs
Number of Employees : 1,712 persons

Financial Statement (₩ mil.)

	12/31/76	12/31/77
1. Assets		
Current Assets	7,719	12,479
Fixed Assets	6,092	8,671
Deferred Assets	1,594	3,571
	32	237
2. Liabilities		
Current Liabilities	6,400	9,446
Fixed Liabilities	4,881	6,493
	1,519	2,953
3. Net Worth		
Capital	1,318	3,031
Earned Surplus	904	1,300
	414	1,731
4. Profit and Loss		
Net Sales	12,975	16,997
Exports ($ mil.)	10	17
Net Profit	210	281

I. Dae Woo Industrial Co., Ltd.

Major Products: Textiles, Papers, Communication Equipment, Shipbuilding, Electronics, Machinery, Footwear, Iron and Steel Products, etc.

Annual Production Capacity of Footwear: 4,350,000 pairs

Number of Employees: For Footwear 2,550 persons

Financial Statement* (₩ mil.)	12/31/1976	12/31/1977
1. Assets		
Current Assets	107,412	141,000
Fixed Assets	71,398	103,811
Deferred Assets	35,995	37,108
	18	83
2. Liabilities		
Current Liabilities	86,498	104,707
Fixed Liabilities	79,150	96,815
	7,348	7,892
3. Net Worth		
Capital	20,914	36,294
Earned Surplus	12,000	20,400
	8,914	15,893
4. Profit and Loss		
Net Sales	124,300	188,633
Exports ($ mil.)	256	501
Net Profit	5,334	9,482

* Not only for Footwear Ind., includes all products.